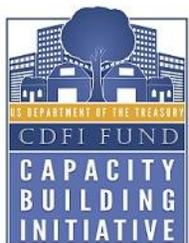


Training Module:

Developing Your Strategic Plan



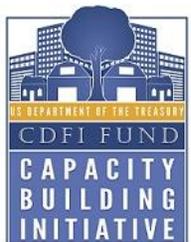
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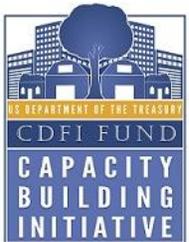
Why Discuss Strategic Planning?

- Critical to the health, growth, and sustainability of CDFI MDIs
- A lack of strategic planning is cited as a common weakness in enforcement actions
- Strategic planning provides your bank the opportunity to prioritize goals and action items to focus time and resources on key initiatives



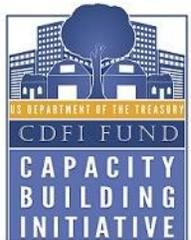
Structure of Module

- I. Importance of Strategic Planning
- II. Elements of Strategic Planning
- III. Integration of Risk-Based Strategic Planning
- IV. Strategic Planning Roadmap and Walkthrough of Tools and Resources



Goals of the Strategic Planning Session

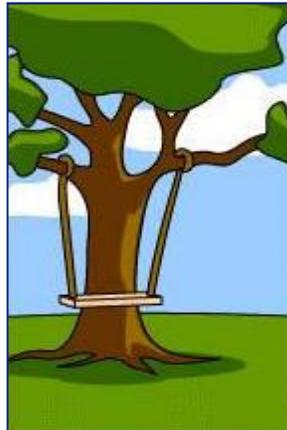
- To provide an overview of strategic planning techniques and an assessment of your overall capabilities in strategic planning
- To develop a framework to prioritize and inform development of your goals using SWOT (**s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats) analysis and benchmarking techniques
- To understand the framework for strategic planning
- To learn how to create actionable goals
- To learn the seven big risk management areas to build into the plan
- To provide a strategic planning roadmap as a step-by-step implementation guide



Clear Understanding of the Strategic Focus is Critical



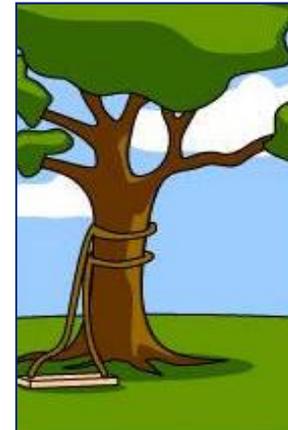
What you thought you needed



What your staff heard



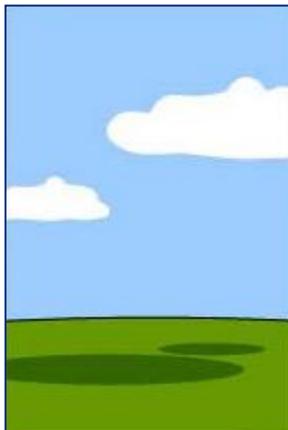
How the BOD understood the request



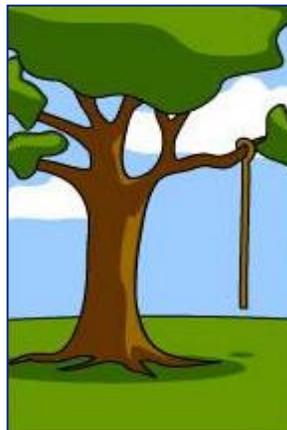
What the IT Dept. heard



How the Credit Officers understood the need



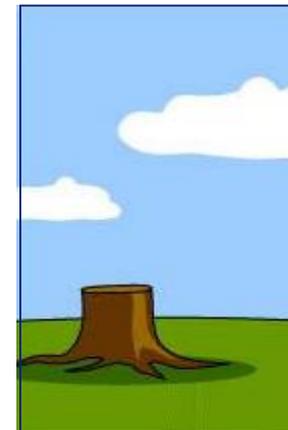
How the strategy was documented



What the finance team focused on



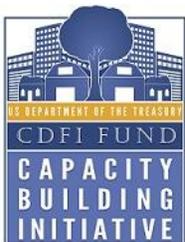
What the stakeholders envisioned



How it was supported



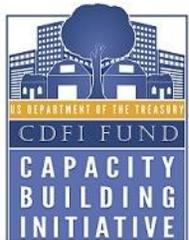
What you really wanted



Value of the Strategic Planning Process

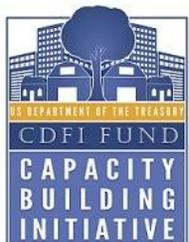
Strategic Planning Process

- Establishes consensus for organizational vision and values
- Identifies opportunities and challenges
- Serves as the filter for all business decisions
- Develops measurable goals and a framework for midstream adjustments
- Helps institutions to become more proactive vs. reactive
- Promotes ownership and accountability (addresses the push and pull between board and management)
- Meets regulatory expectations and provides context for performance



CDFI MDIs Face Unique Sustainability Challenges

- Competing with larger financial institutions
- Keeping pace with new technologies to run banking operations
- Complying with regulatory requirements
- Managing a high touch business model in a low cost environment
- Mitigating high market concentration risk
- Dealing with slow recovery in the markets they serve

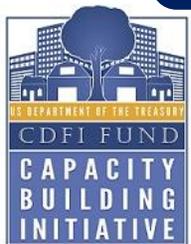
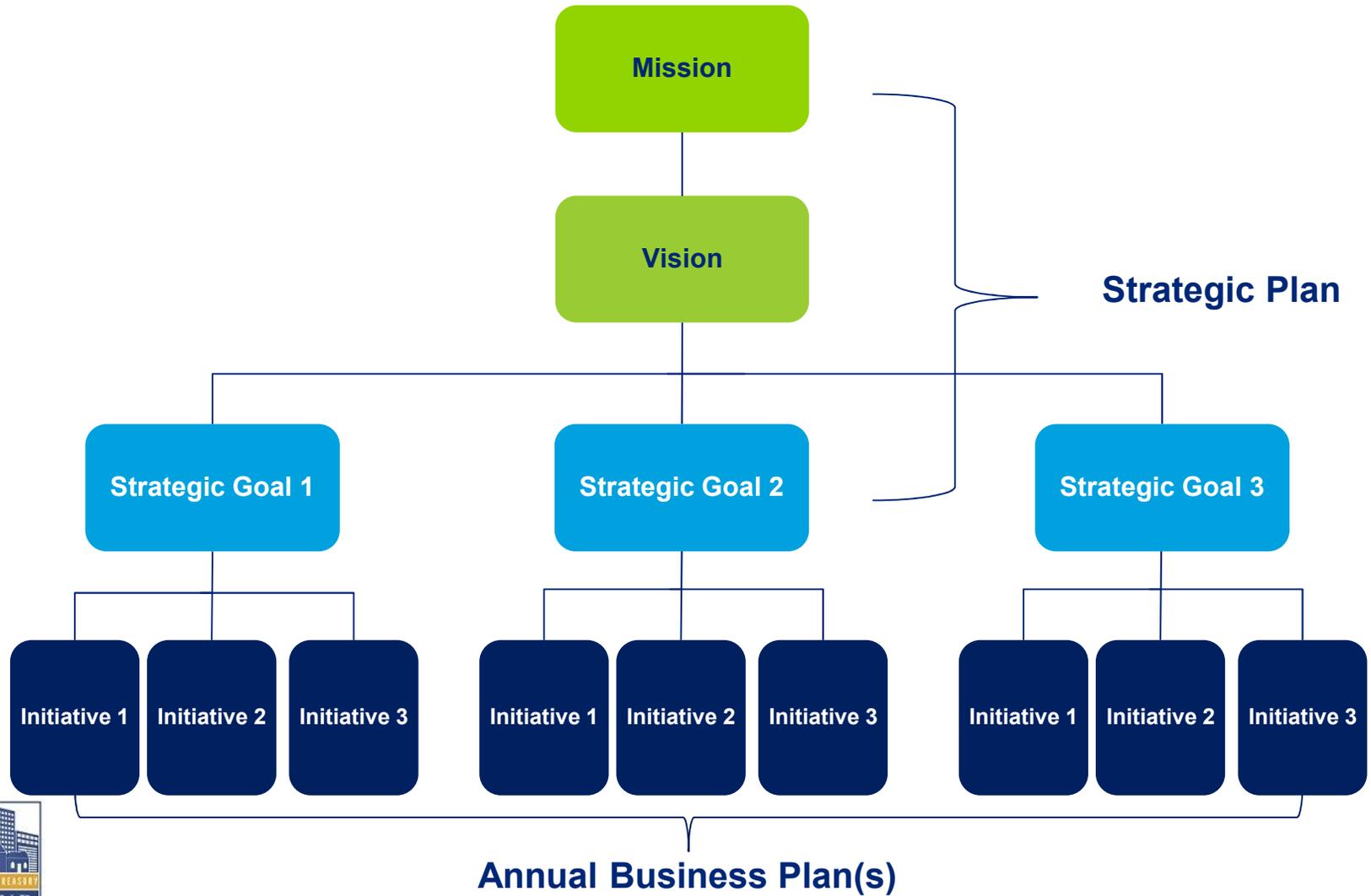


The lack of strategic planning was commonly cited in the regulatory enforcement actions for CDFI MDIs

Elements of Strategic Planning

Overview of 5 key steps of planning

Strategic Plan Logical Structure



Elements of Strategic Planning

Element 1: Benchmarking & SWOT

- Assessing your historical performance as a baseline for goal-setting. Conducting an environmental scan (SWOT analysis technique)

Element 2: Vision, Mission & Values

- Understanding why you are in business and your core principles

Element 3: Strategy Development

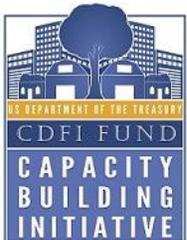
- Developing strategies that tie to your mission, vision, and values

Element 4: S.M.A.R.T Goals

- Establishing specific, measurable, and actionable goals that support your strategies

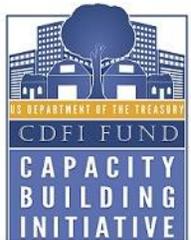
Element 5: Performance Management

- Measuring progress and success relative to goals



Element 1: Benchmarking

- **Benchmarking** sets the standard for CDFI MDI's "actual performance" relative to regulatory standards, customer perceptions, staff feedback, and peer comparisons
- **Tools include:**
 - Comparison of budget vs. actual performance
 - Regulatory exam results
 - FDIC peer comparison on key measures
 - Comparison of past strategic/financial plans vs. results
 - Pre-meeting questionnaires for board, management, and staff
 - Evaluation of core risk measures



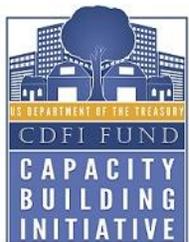
Element 1: SWOT Analysis

A **SWOT analysis** is used to identify internal and external factors affecting the bank's strategic direction

INTERNAL

S	Strengths <ul style="list-style-type: none"> • Products • Strong community ties result in competitive advantage in underwriting • Sources of funds readily available • Reputation 	W	Weaknesses <ul style="list-style-type: none"> • Outdated IT systems • Limited new technology for customers • Lack of communication of strategy • High cost of doing business • Managing risk
O	Opportunities <ul style="list-style-type: none"> • New technology to reduce costs • Mobile banking • Changes in policies for MDIs • Mergers and acquisitions • Growth in exporting • New capital partners 	T	Threats <ul style="list-style-type: none"> • Regulatory changes • The rate of innovation • Entrance of alternative lenders • Slow market recovery

EXTERNAL



Element 2: Vision, Mission, & Values

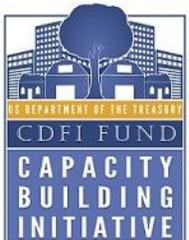
Consensus on the guiding vision and values of your CDFI MDI is the foundation to successful strategic planning

What kind of bank do we want to be for our shareholders, our communities and our customers?

What are our core values?

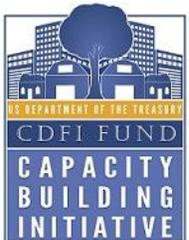
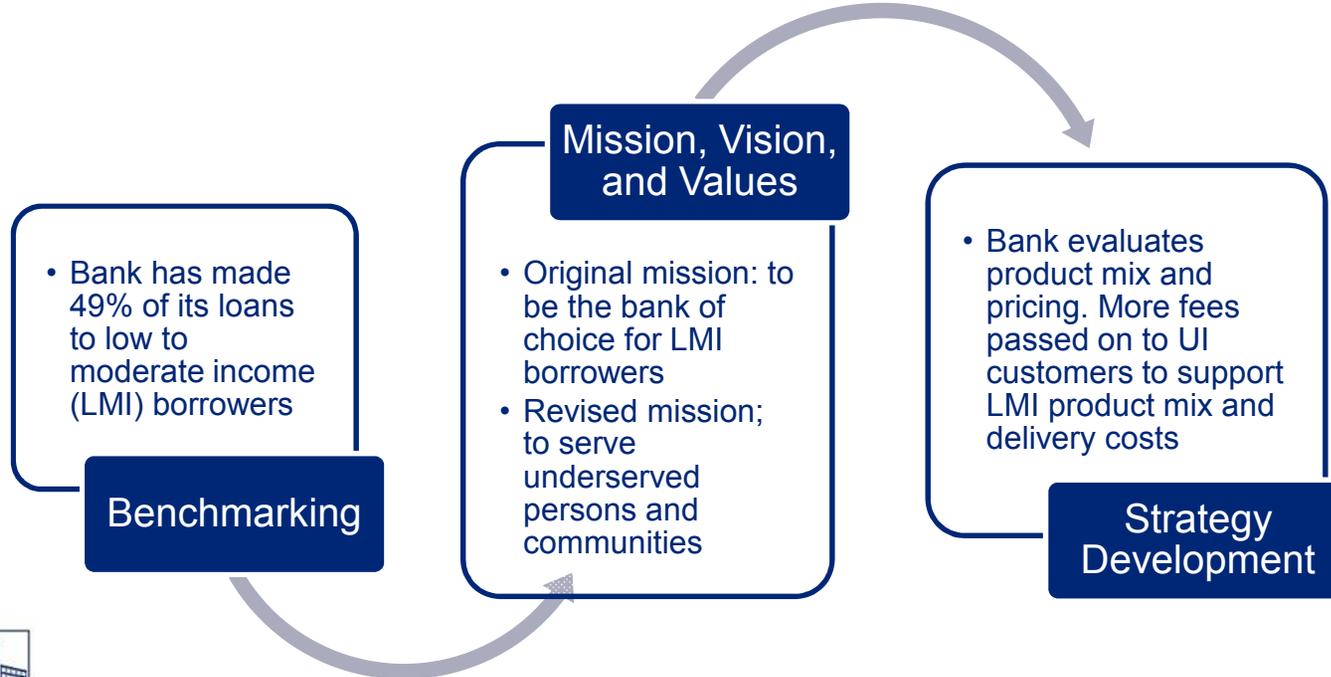
Is our original mission still relevant and realistic?

How will our community be better off?



Element 3: Strategy Development

- Strategy development is the linear response to your CDFI MDI's current position (benchmarking) and your foundational principles (mission, vision, and values)
- Identify and prioritize SWOT (internal **strengths** and **weaknesses** and external **opportunities** and **threats**)



Element 4: Establishing SMART Goals

Use the SMART goals methodology to establish reasonable goals with measurable outputs that tie to desired outcomes – *key for performance management*

S

- **SPECIFIC:** Goal should be detailed and action-oriented

M

- **MEASUREABLE:** Consider how you will measure success (quantity/quality) and evaluate whether or not the goal has been achieved

A

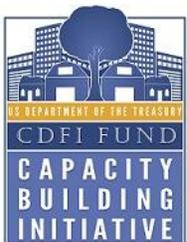
- **ACHIEVABLE:** Strike a balance between challenging your organization and being realistic. Consider current resources and lessons learned

R

- **RELEVANT:** Evaluate the relationship between the goal and the “big picture.” How does the goal advance your overall objectives?

T

- **TIME-BOUND:** Select specific dates for deliverables, action items and milestones; this should include both short and long term goals



SMART Goals vs. “Not Smart” Goals

Examples of SMART Goals

Example One:

By January 31, 2014, review and update all portfolio monitoring policies and procedures, and establish specific guidelines on the frequency of future policy reviews to ensure management is able to respond quickly to portfolio concerns

Example Two:

By Q1 of 2014, establish and adopt a succession plan for all Level 3 management positions that includes the identification of high potential candidates for Level 3 management roles, an assessment of their training and/or exposure needs, and a timeline for implementation

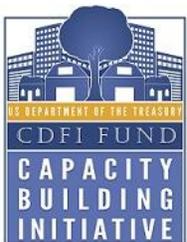
Examples of “Not Smart” Goals

Example One:

Update our portfolio monitoring policies

Example Two:

Develop succession plans for key staff

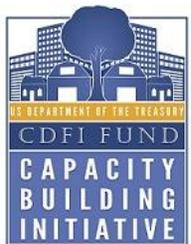


Tip: Action plans can be managed by either specific dates or quarters. The degree of specificity depends on the bank’s culture

Element 5: Performance Management

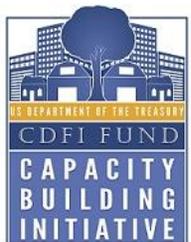
Implementing strategic objectives requires communication, accountability and a commitment to consistent performance evaluation

	Communication	Accountability	Performance Evaluations
Performance Management	<ul style="list-style-type: none"> • Strategic plan should be formally adopted by the board • The plan should be communicated to senior managers and staff • Performance-to-plan should be a line item on board meeting agendas 	<ul style="list-style-type: none"> • The plan should include specific: <ul style="list-style-type: none"> – Action items – Deliverables – Senior management or directors accountable for specific goals 	<ul style="list-style-type: none"> • Performance-to-plan should be part of every management and board meeting agenda • Corrective action should be taken where deliverables and/or timelines are not being met



Leading Practices in Performance Management

- Review the strategic plan and include it as a line item in both management and board meetings
- Ensure the strategic plan is an “organic” vs. a shelf document
- Provide copies of the strategic plan to staff to ensure both understanding and buy-in
- When performance-to-plan is comprised, investigate root causes and take corrective action
- Engage staff to understand root causes of missing plan deadlines
- Use the strategic plan as a reference tool in developing lending goals and budget development. This ensures staff ownership of the plan and reinforces value



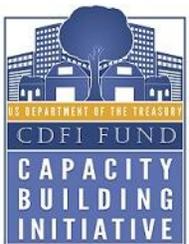
The Role of Risk-Based Strategic Planning

Addressing key areas of risk as part of the planning process

Elements of Risk-Based Strategic Planning

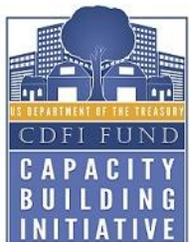


Key risks your regulators care about and want to see integrated into your strategic plan



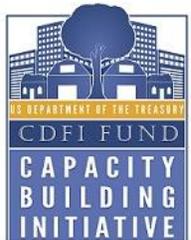
Risk-Based Strategic Planning : “The Big 7”

- 1. Market Performance Risk:** liquidity, equity
- 2. Regulatory Risk:** adherence to current regulations and preparedness for new regulations, changes, recent case law, current/past performance actions, regulator ratings, and audit findings
- 3. Product/Service Risk :** performance of major product lines, proposed new products, and related impacts
- 4. Operational Risk:** growth/constriction and complexity of operations and 3rd party relationships



Risk-Based Strategic Planning : “The Big 7”

- 5. Credit Risk:** effect of target market factors on lending, changes in underwriting, policy overrides, delinquency, and loan pricing
- 6. Interest Rate Risk:** use of different indices to price assets and liabilities, lagged or asymmetric pricing behavior on bank-managed rates
- 7. Reputation Risk:** threats include negative publicity from high profile litigation, poor financial performance, questionable outsourcing/alliances/partnerships, etc.



Roadmap for Strategic Planning

Process for developing a strategic plan, and tools and resources to support your CDFI MDI in getting started

Who is at the Table for Planning and What is Their Role?

Directors

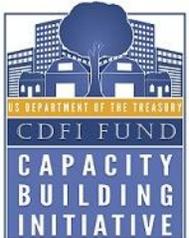
- PARTICIPATE! Engage in pre- and post-session strategic work
- Provide thoughtful and informed strategic input to promote the sustainability and growth of the bank
- Assign designee to coordinate the strategic planning process and facilitator options

Senior Management

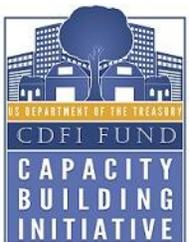
- Deliver data required for benchmarking activities
- Provide open, honest feedback
- Add the element of “reality” and “grounding” to support the SMART goals framework

Facilitator

- Serve as “guide” for discussion
- Set expectations for process and “end game”
- Provide notes and documentation required for performance management

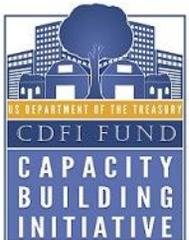


Do you have board buy-in?



Importance and Role of the Facilitator

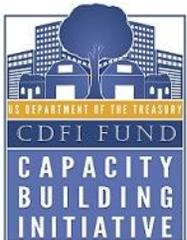
- Valuable for your CDFI MDI to “make time” for strategic planning
- An independent stakeholder can help get the real picture
- Facilitator can support your CDFI MDI with “end-to-end” strategic planning services – tend to be most efficient approach
 - Includes support with pre-planning, facilitation of planning session, and post-session planning including development of a written strategic plan
- Some examples of ways that a facilitator can provide support include:
 - Assistance with environmental scan and prioritization (to update an existing strategic plan)
 - Board development training on the strategic planning process
 - Review of regulatory risk factors and assistance with action plan development



Selecting a Facilitator

Expectations of a Strategic Planning Facilitator

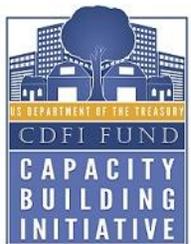
- **Facilitator should have the following skills:**
 - Experience in bank strategic planning
 - Understanding of, or experience in, the banking industry (preference for community or smaller banks)
 - Experience in banking strategies and strategy development that are at the core of your institutional mission and goals
- **Facilitator should be able to:**
 - Manage time and discussions to achieve objectives of the planning session
 - Guide discussions to ensure difficult issues are addressed, to support execution of each element of strategic plan development, and to deliver a strategic planning document
 - Provide timely front-end and post-session execution of deliverables
 - Customize process and tools used to the needs of your CDFI MDI



Tip: Check with peers for recommendations

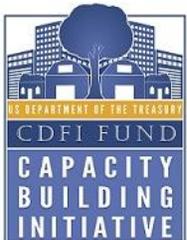
Strategic Planning Roadmap

Begin the strategic planning process and environmental scan at least 3-6 months in advance of the strategic planning session



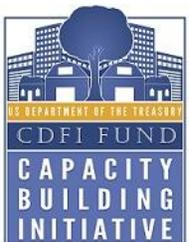
Sample Timeline of Strategic Planning Process

	Key Steps	Timeframe (approximate)	Sample Calendar Cycle
Develop Planning Timeline and Approach	<ul style="list-style-type: none"> • Discuss alternative approaches and plan desired format of end product • If needed, get board buy-in of process 	1 – 2 months	May
Pre-Planning	<ul style="list-style-type: none"> • Review historical performance • Gather relevant data and stakeholder input 	3 months	June – August
Planning Session(s)	<ul style="list-style-type: none"> • Prioritize and set goals • Develop framework for strategic plan 	1 month	September
Post-Planning	<ul style="list-style-type: none"> • Develop action plan • Build in performance management • Write formal strategic plan 	1 – 3 months	October – December



Pre-Session Activities Overview

- Communicate roles and responsibilities
- Establish a strategic planning committee
- Agree on a strategic planning process
- Select a facilitator
- Conduct environmental scan activities (SWOT analysis and benchmarking)
- Identify key issues, questions, and choices to be addressed as part of the strategic planning effort



Pre-Session: Tools and Exercises

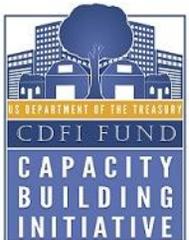
I. Handouts and Preparation Tools (designed to help you prepare for your strategic planning session)

- Pre-Planning Checklist and Timeline
- Historical Performance Analysis
- Capacity Assessment Tool
- SWOT Analysis

II. SWOT Analysis Exercise

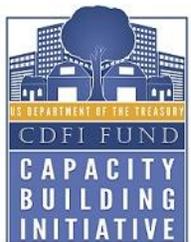
- At your table groups, discuss the external portions of the SWOT (opportunities and threats)
 - What opportunities and threats do you see for the CDFI MDI industry?
 - Currently and in the short and long term future
- Review your individual capacity assessment tool results and the group benchmarking data provided to assess your internal strengths and weaknesses

Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.



Strategic Planning Session Tips

- Define/review the organization's values, community vision, and mission
- Develop a shared vision
- Develop SMART goals to be executed over a specified number of years
- Agree upon key strategies to reach the goals and address key issues identified through the environmental scan

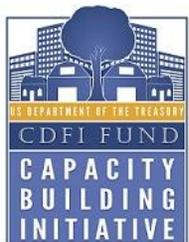


Strategic Planning Session: Tools and Exercises

- I. Handouts with Strategic Planning Tools (designed to help you during your strategic planning session)
 - Worksheet for Prioritizing SWOT Analysis
 - SMART Goals Template (part of performance management tool)

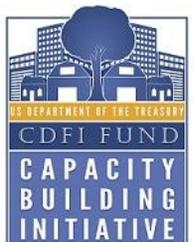
- II. Prioritizing Your SWOT Exercise
 - Rank top 2 strengths, weaknesses, opportunities, and threats from the industry SWOT developed in the previous exercise
 - Discussion of strategies for making difficult strategic decisions

Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.



Post-Session Activities

- Develop an action plan that addresses goals, specifies objectives, and establishes work plans
- Finalize a written strategic plan that summarizes the results and decisions of the strategic planning process
- Build in procedures for monitoring, and for modifying strategies based on changes in the internal or external environment

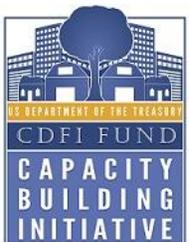


Post-Session: Tools and Exercises

- I. Handouts and strategic planning tools (designed to help you design your strategic plan and help you follow through with your goals)
 - Outline of a Strategic Plan
 - Performance Management Tool

- II. Walkthrough SMART Goals Template

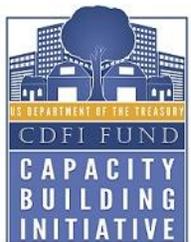
Further Resources: All of the strategic planning handouts or tools can be found in your training binder or on the Virtual Resource Bank online after the training.



Wrap-Up

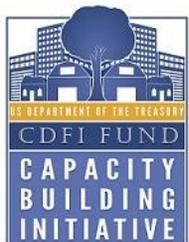
Key Takeaways

- Strategic planning is critical to both the sustainability and growth of a financial institution
- The strategic planning process should be “owned” by the directors. Management should provide support and honest, direct feedback
- The integration of risk-based strategic planning techniques is critical given regulatory emphasis and the importance of sound risk management with regard to the overall health of the bank
- SMART goals are the foundation for establishing realistic deliverables and managing performance

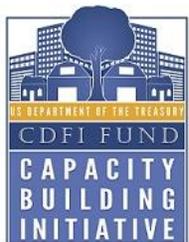


Examples of Potential Technical Assistance

- Assist with preparation and leading of discussions with board on importance strategic planning
- Develop scope and timeline for strategic planning
- Conduct an environmental scan including analysis of capacity assessment tool results, support with benchmarking, and external analysis of opportunities and threats
- Facilitate a strategic planning session including support with developing an action plan
- Assist with development of SMART goals
- Help with incorporating performance management tools



Questions?





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